FISCAL NOTE

Bill #:	HB0771	**Title:**	Eliminate Montana individual income tax; submit proposed act to voters
Primary Sponsor:	Balyeat, J	**Status:**	As Introduced

Sponsor signature Date   Chuck Swysgood, Budget Director Date

Fiscal Summary	**FY 2004 Difference**	**FY 2005 Difference**
Expenditures:		
General Fund	$0	$0
Revenue:		
General Fund	$0	0
Net Impact on General Fund Balance:	$0	$0

- ☐ Significant Local Gov. Impact
- ☐ Included in the Executive Budget
- ☐ Dedicated Revenue Form Attached
- ☐ Technical Concerns
- ☐ Significant Long-Term Impacts
- ☐ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Department of Revenue

1. *If approved by the electorate at an election to be held in November, 2004*, this bill would eliminate the state's individual income tax beginning with tax year 2006. This bill works in conjunction with HB772, which provides for an interim study to recommend a sales tax designed to replace the revenue reduction stemming from eliminating the income tax. If this bill is not approved and signed, then HB772 (the sales tax study) is void; also, if HB772 is not approved and signed, then this act is void.
2. Because these bills would not provide for eliminating the individual income tax until tax year 2006, there is no impact from this bill in the 2005 biennium (see long-range impact section).

Department of Commerce

3. HB 771 eliminates the Montana individual income tax and eliminates certain credits against the Montana individual income tax.
4. Currently, when determining the size of certain loans to be made under the In-State Investment Act, administered by the Board of Investments (the "Board"), the Board considers the long-term effects of corporate and personal income taxes estimated to be paid by the business (borrower) and its employees. With the proposed elimination of individual income taxes, this tax would no longer be considered; however, a fiscal impact cannot be calculated.
5. Currently, a business that is created or expanded as the result of an economic development loan made under the In-State Investment Act is entitled to a credit against individual income and corporate taxes due,

for the portion of the fees attributed to the use of the infrastructure the loan financed. With the proposed elimination of individual income taxes, the tax credit for the borrower of one of these loans may be less; however, a fiscal impact cannot be calculated.

Department of Fish, Wildlife and Parks

6. Effective in calendar year 2006, Fish, Wildlife and Parks will no longer receive contributions from taxpayers for nongame wildlife programs through the voluntary check off box on the state income tax return.

LONG-RANGE IMPACTS:

1. Based on the current version of HJR2, general fund collections from individual income taxes are anticipated to total \$556.874 million in fiscal year 2004; and \$594.339 million in fiscal year 2005. Collections in subsequent fiscal years are likely to total in excess of \$600 million. Eliminating the individual income tax beginning in tax year 2006 would reduced revenues to the general fund by over \$600 million per year, beginning with fiscal 2007. Revenues would likely be reduced by over \$300 million in fiscal 2006, reflecting the elimination of withholding and quarterly estimated tax payments for the six-month period ending June 30, 2006.
2. The loss of individual income tax revenue in future years would be offset somewhat by the fact that HB771 would require those pass-through entities (sub-chapter S corporations, partnerships, disregarded entities) currently filing through the income tax to file under the corporation license tax, and pay tax at the current corporation license tax rate of 6.75%. It is difficult to determine how much revenue this would generate; but if half of the income reported on income tax forms on the line for rents, royalties, and partnerships is attributable to pass-through entities, the offset could total as much as \$30-40 million per year. This would still result in a net revenue reduction on the order of \$550 – 580 million per year from this bill.
3. To maintain current funding levels, the sales tax developed to replace the individual income tax would have to generate this amount of revenue. This would require a very broad-based sales tax. A sales tax could be designed with a tax base that provided enough revenue to replace the income tax, however.
4. Also, replacing the state individual income tax with a statewide sales tax will increase individual income taxes owed by Montanans to the federal government by over \$100 million, as individual income taxes are deductible for federal income tax purposes, whereas state sales taxes are not.
5. If the electors of Montana vote for eliminating the Montana individual income tax, Fish, Wildlife and Parks will no longer receive contributions from taxpayers for nongame wildlife programs through the voluntary checkoff box on the state income tax return. In FY02, \$22,000 was generated for this program. Beginning in calendar year 2006, we will lose approximately \$22,000 annually for nongame wildlife programs in Montana.